

Message Text

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ACTION XMB-04

INFO OCT-01 EA-06 ISO-00 AEC-05 AID-05 CEA-01 CIAE-00

CIEP-01 COME-00 DODE-00 EB-07 FPC-01 H-01 INR-07

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TO SECSTATE WASHDC 436

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PASS EXIMBANK

E.O. 11652: N/A

TAGS: ENRG, EFIN, RP

SUBJECT: MERALCO SECURITIES AND SHELL PETROLEUM EXCHANGE OF
PETROLEUM INDUSTRY INTERESTS

REF: MANILA A-42

1. EMBASSY HAS LEARNED FROM ANTONIO OZAETA, EXECUTIVE
VICE PRESIDENT OF MANILA ELECTRIC COMPANY, THAT SHELL
PETROLEUM COMPANY AND MERALCO SECURITIES HAVE COMPLETED
MAJOR EXHCANGE OF STOCKS IN PETROLEUM INDUSTRY FIRMS.
SHELL PETROLEUM HAS TRANSFERRED TO MERALCO SECURITIES
25 PERCENT OWNERSHIP IN FILIPINAS SHELL, A MAJOR DISTRIBUTOR
OF PETROLEUM PRODUCTS IN THE PHILIPPINES AND OPERATOR
OF ONE OF THREE PHILIPPINE REFINERIES OF FUEL AND OTHER
PRODUCTS. MERALCO SECURITIES HAS TRANSFERRED TO SHELL
PETROLEUM 24.6 P/CENT OWNERSHIP OF PHILIPPINE PETROLEUM
CORPORATION (PPC), A LUBRICANT REFINERY AND A
COMPARABLE INTEREST IN MERALCO SECURITIES INDUSTRIAL
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CORPORATION (MSIC), A FIRM OPERATING THE PIPELINE TO

PPC. OZAETA SAID NEWS OF THE EXCHANGE HAS BEEN SELECTIVELY RELEASED TO PETROLEUM INDUSTRY AND OTHER INTERESTED PARTIES. OUTLINES REPORTED IN MANILA PRESS FEB 6 BUT DETAILS BEING WITHHELD FROM PUBLIC BECAUSE OF CONTROVERSY OVER TRANSFER OF LOPEZ INTERESTS (REF A).

2. AYALA GROUP INCLUDING ARANETA AND ABOITIZ ELEMENTS, OWNS 25P/CENT INTEREST IN FILIPINAS SHELL. MERALCO SECURITIES' ACQUISITION RAISES PHILIPPINE OWNERSHIP OF FILIPINAS SHELL TO 50P/CENT. OZAETA STATED SHELL PETROLEUM INTENDS TO DIVEST FURTHER 10P/CENT OWNERSHIP IN FILIPINAS SHELL AT LATER DATE THROUGH SALE OF ADDITIONAL 5P/CENT INTEREST TO MERALCO FOUNDATION AND A 5 P/CENT INTEREST TO AYALA FOUNDATION. ACCORDING TO OZAETA, SHELL PETROLEUM HAS LONG HAD OBJECTIVE OF FURTHER FILIPINIZATION OF FILIPINAS SHELL. THIS INTENT WELL-KNOWN TO EMBASSY. OBJECTIVE IS NOT RELATED TO PHILIPPINE CONSTITUTIONAL REQUIREMENTS FOR LAND OWNERSHIP AS FILIPINAS SHELL HAS LONG TERM LEASE FROM AYALA CORPORATION FOR ITS REFINERY SITE.

3. TRANSACTION FURTHER ENABLES SHELL TO ACQUIRE INTERESTS IN MAJOR DOMESTIC LUBRICANT REFINERY WITH ATTRACTIVE PROFIT POTENTIAL WITHOUT BRINGING ADDITIONAL CAPITAL TO THE PHILIPPINES. MERALCO SECURITIES' INTERESTS ARE EXTENDED BY TRANSACTION INTO REFINERY OF FUELS AND DISTRIBUTION OF PETROLEUM PRODUCTS WHILE ITS CONTROL OVER PPC AND MSC ARE DILUTED. FURTHER DILUTION OF ITS CONTROL OVER THESE FIRMS IS POSSIBLE IF CALTEX EXERCISES ITS STILL VALID OPTIONS TO PURCHASE INTERESTS IN THESE FIRMS.
SULLIVAN

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